

MINUTES

FINANCE & ECONOMIC DEVELOPMENT (TOURISM / VISITOR INDUSTRY / SMALL BUSINESS DEVELOPMENT / SPORTS & RECREATION DEVELOPMENT / OTHER ECONOMIC DEVELOPMENT AREAS) COMMITTEE

October 1, 2014

A meeting of the Finance & Economic Development (Tourism / Visitor Industry / Small Business Development / Sports & Recreation Development / Other Economic Development Areas) Committee of the County of Kaua'i, State of Hawai'i, was called to order by Mason K. Chock, Sr., Chair, at the Council Chambers, 4396 Rice Street, Suite 201, Līhu'e, Kaua'i, on Wednesday, October 1, 2014, at 3:27 p.m., after which the following members answered the call of the roll:

Honorable Gary L. Hooser
Honorable Ross Kagawa (*excused at 6:45 p.m.*)
Honorable Mel Rapozo
Honorable JoAnn A. Yukimura
Honorable Mason K. Chock, Sr.
Honorable Tim Bynum, Ex-Officio Member (*excused at 5:30 p.m.*)
Honorable Jay Furfaro, Ex-Officio Member (*excused at 6:05 p.m.*)

The Committee proceeded on its agenda items, as shown in the following Committee Reports which are incorporated herein by reference:

- CR-FED 2014-31:** on Bill No. 2554 A BILL FOR AN ORDINANCE AMENDING CHAPTER 5A, KAUAI COUNTY CODE 1987, AS AMENDED, RELATING TO REAL PROPERTY TAXES (*Real Property Tax Relief for the 2014 Tax Year*)
(Approved as Amended.)
- CR-FED 2014-32:** on Bill No. 2556 A BILL FOR AN ORDINANCE AMENDING CHAPTER 5A, KAUAI COUNTY CODE 1987, AS AMENDED, RELATING TO REAL PROPERTY TAXES (*Reinstating the Permanent Home Use Tax Limit*)
(Received for the Record.)

The Committee proceeded on its agenda item, as follows:

Bill No. 2557 A BILL FOR AN ORDINANCE AMENDING CHAPTER 5A, KAUAI COUNTY CODE 1987, AS AMENDED, RELATING TO REAL PROPERTY TAXES (*Low Income Tax Credit*) **(This item was Deferred.)**

Councilmember Yukimura move to approved Bill No. 2557, seconded by Councilmember Hooser.

Committee Chair Chock: Do we have any questions for our Director of Finance on this item? We do? I will suspend the rules and call Director of Finance Steve Hunt.

There being no objections, the rules were suspended.

Committee Chair Chock: I will give the floor to Councilmember Hooser.

Councilmember Hooser: I would just like a brief summary of the Bill we are voting on.

STEVEN A. HUNT, Director of Finance: This, unlike an exemption is a tax credit bill. I guess time is not as important on this one because it is not reflected on the assessment notices. You will not see it as an exemption. You will not see it as a use class. This would provide a tax credit which would break the link between value and taxes and this would be geared towards, I believe the last version was fifty percent (50%) of the Kaua'i median household income.

Councilmember Hooser: Which in english translates to?

Mr. Hunt: Which in english translates to I believe a...I want to say about a thirty-five thousand dollar (\$35,000) income or below would qualify to not pay taxes on value but rather three percent (3%) of their income that they generate.

Councilmember Hooser: Household income?

Mr. Hunt: Household income.

Councilmember Hooser: If a household income earns less than thirty-five thousand dollars (\$35,000) a year...is that adjusted gross income?

Mr. Hooser: No, gross income.

Councilmember Hooser: Gross income. Is that tax income or real job income...I mean not tax income but investment income, or rental income?

Mr. Hunt: It would be all income. Gross, rent...it would be gross income from all sources, investment income...so these are really and it does state on the Bill, "very low income" so this is primarily for people that are still able to own a home, they are most likely living on social security or a very low fixed income.

Councilmember Hooser: And then the benefit to them would be again?

Mr. Hunt: That they would not pay based on the value of their property but on the income they are receiving in lieu of taxes.

Councilmember Hooser: How much would that be?

Mr. Hunt: Three percent (3%) depending on what their income is.

Councilmember Hooser: Three percent (3%) of their income.

Mr. Hunt: Of their gross income.

Councilmember Hooser: So if their earn thirty thousand dollars (\$30,000) a year they would pay three percent (3%) of thirty thousand dollars (\$30,000)...

Mr. Hunt: Nine hundred dollars (\$900).

Councilmember Hooser: Instead of whatever else they would be charged? Okay, and this is an Administration proposal?

Mr. Hunt: This is working in conjunction with Chair Furfaro.

Councilmember Hooser: Okay. Thank you.

Committee Chair Chock: Councilmember Yukimura.

Councilmember Yukimura: Fiscal implications?

Mr. Hunt: Unknown at this time. It is dependent on the number of applicants who would qualify, who would apply. I do not know if a deadline has been set for application for this but again because it is a tax credit rather than an exemption it does not have to go out with the November notices. Certainly we think it would be nice to know before we certify the tax roll in February so I am thinking probably end of year if it does not state in there.

Councilmember Yukimura: Thank you.

Committee Chair Chock: Councilmember Kagawa.

Councilmember Kagawa: I guess my question, foreseeing people trying to...like rich people they try to work around the system and take advantage of the best rate possible, so what if you had a home that somebody who earns over thirty thousand dollars (\$30,000) and they have maybe their daughter or whatever live in there. She makes less than thirty thousand dollars (\$30,000) can she apply for the low income?

Mr. Hunt: It is...

Councilmember Kagawa: The dad owns the home but she lives in it.

Mr. Hunt: And where does the dad live? Elsewhere?

Councilmember Kagawa: Right next door.

Mr. Hunt: So he is on the property?

Councilmember Kagawa: Yes.

Mr. Hunt: So it would be considered part of the household.

Councilmember Kagawa: So part of his?

Mr. Hunt: Unless the property is CPRed or if it is a independent, separate property then the daughter, whoever would be able to apply independently, but if it is part of the total, than no.

Councilmember Kagawa: Okay. Thank you.

Committee Chair Chock: Further questions? Go ahead.

Councilmember Hooser: Just to clarify a little bit in terms of impacts we should have some idea of what the impacts are going to be whether it is one hundred thousand dollars (\$100,000) or one million dollars (\$1,000,000) or five or six (5 or 6) people or...you have no idea whatsoever?

Mr. Hunt: I have no idea whatsoever until some people apply and I suspect that the ones that are applying are probably the ones that have properties that do not meet the criteria for the Home Preservation Limit, they do not have value of seven hundred fifty thousand dollars (\$750,000) or more but the

values of the properties with even including all of their exemptions still is significant five hundred thousand dollars (\$500,000), six hundred thousand dollars (\$600,000) so if you are looking at an income of say twenty thousand dollars (\$20,000) versus a net taxable of five hundred thousand dollars (\$500,000) at a three dollar (\$3) rate, that is fifteen hundred dollars (\$1,500) versus six hundred dollars (\$600). So there are savings but until we actually get the application we do not know and this would not impact fiscal 2015, this is fiscal 2016 so when we know obviously that becomes a consideration when we suggest potential tax rates based on how much credits are going to be.

Councilmember Hooser: It is just a little troubling voting on something that we have no idea what the impacts would be at all and I am not even sure if there is a problem that we are solving.

Mr. Hunt: The problem I see is...

Councilmember Hooser: I want to support the very low income, there is no question about that but are they coming up knocking on our door say we need help? Are there specific...

Mr. Hunt: Well I have had specific people that have said I do not qualify for the Home Preservation Limit because my net value of my property is too low but I have qualified for all of your exemptions including your low income exemption but even with the low income exemptions my net taxable is still five hundred thousand dollars (\$500,000), six hundred thousand dollars (\$600,000) and with the rates I am having a hard time paying the taxes. So there still is and it is probably a small group but I envision this primary for people on social security that do not have enough income to support the taxes that are being generated without the cap and with the market, even with all of their exemptions. I do not anticipate a big count but I do not have an estimate.

Councilmember Hooser: Do you think you will have an estimate by next week when we meet at the Council? I mean some number that you feel good that this is the probably not going to be more than this. I mean just help us out here a little bit.

Mr. Hunt: I would have to maybe go and survey some of the senior centers to see how many people that they estimate might fit in that. There is no way for me to do that. I do not have access to obviously people's income tax returns unless they submit them voluntarily.

Councilmember Hooser: Some of us has used the word responsible and irresponsible and it seems kind of crazy not to have any idea whatsoever what kind of budget impacts that might have or how many people it might help or not. So if you could work on coming up with some kind of estimate.

Mr. Hunt:

Swag.

Councilmember Hooser: We are being asked to vote on something and you are the Finance Director and I think you are doing a great job but if you could help us out I would appreciate it. Thank you.

Committee Chair Chock:

Councilmember Rapozo.

Councilmember Rapozo: Thank Steve, for your honesty because I do not know how in the world you would determine that unless like you said you go to the senior centers but I agree with Councilmember Hooser that it is difficult...I think I just said that in an earlier Bill. How do you vote for something that you do not know what the impact is? It is kind of hard. The other question is really how would we verify the income?

Mr. Hunt: Well the income is verified from submittal of tax returns and they actually sign the... I think it is the 4067 Form that actually authorizes us to submit to the Internal Revenue Service (IRS) facts for verification; that is what we submit to the IRS.

Councilmember Rapozo: I understand that but I think that there are ways to really legally minimize your personal taxes by using trust or corporations and I think that is where I am having a concern is how do we and I think we have heard this before we had circuit breaker discussions that there is an opportunity to really...

Mr. Hunt: Which is why we went away from adjusted gross income. You are very correct on that because when you are looking at people who are claiming tax fee municipal bonds which they do not count towards their adjusted gross income or using heavily depreciated items where they are showing losses and carrying them on so the adjusted gross income is really easy to manipulate and especially by the wealthy so we have gone right up to the top line and said you do not get to take all of those adjustments, you do not get to take all of that. What is your gross income?

Councilmember Rapozo:

You are comfortable using the gross?

Mr. Hunt:

The gross income, yes.

Councilmember Rapozo: Thank you. As far as time sensitivity, we would not need to pass this today because I do not want to pass it out just to get it to Council and wait for information. I would much rather have a much better idea maybe at a future Committee meeting. Thank you.

Councilmember Hooser: Just a brief question. I was actually in line at the tax office on the thirtieth filing my affordable rental exemption and spoke to a gentleman in line who was trying to qualify for this exemption or for a similar exemption, low income and mentioned to me the gross income criteria and he said I am a retired contractor/builder guy and my gross income is going to be higher but I only net this amount of money and so...

Mr. Hunt: So if he were to incorporate or and Limited Liability Company (LLC) under a business than his personal return he could flow the net to his personal return but if he is using it as a sole proprietorship, which is booked under his social security number, whatever he grosses from his business, if it is a sole proprietorship is tied to his social security, and you are right, he does not get to write off everything.

Councilmember Hooser: Well the matter of writing it off is not the issue. The tax office is taking the gross amount.

Mr. Hunt: Correct. If it is under his social security that is the criteria.

Councilmember Hooser: I think that is part of this issue. When we start drilling down to these things and there is just so many little things that it seems like we are trying to fix with a bunch of little Band-Aids. Thank you.

Committee Chair Chock: You know what I am hearing is there is an interest in deferring this item and I am supportive of it. However, I am not real clear about what it is you are going to do and so I think we need some clarity about what you can get done in that time to what thoughts you have in terms of helping us move forward with this. Is one (1) month feasible for this, again is timing an issue?

Mr. Hunt: Timing is an issue to the extent that you want the 2015 taxes or the fiscal 2016 to be impacted by this. If we are going to be certifying a tax roll in mid-February, you will want those potential credits to be reflected on there if this is going to pass. It is not as critical as the dates that we are getting out on the assessment notices but it is not that far behind either. If we are looking at passing this certainly by sometime in late December we want this out so we can at least collect or maybe even earlier because I do not know what the deadline we would be setting for people to apply but we would have to process, calculate what those are relative to their taxes, set up the program internally to make sure that we are accommodating that, and be able to report that on the tax sheet that we send to you in terms of what the estimated impact would be.

Committee Chair Chock: So you would you suggest a deferral for two (2) weeks back into Committee?

Mr. Hunt: Two (2) weeks would give some time to kind of put together an estimate.

Committee Chair Chock: Okay. Councilmember Yukimura.

Councilmember Yukimura: So you are going to actually try to estimate the fiscal impacts?

Mr. Hunt: Yes.

Councilmember Yukimura: I mean...it did not sound like there was a whole lot of basis on which to do it and I am thinking it is such a small group of people that...

Mr. Hunt: I am thinking that one (1) of the ways we might be able to harness data we already have is take the exemption information that we have for the low income exemption already even though it is at a higher level. There will be certain people within that group that are at the lower range. We can maybe filter out of the applicants that got the income exemption how many would qualify for the lower amount. I do not know if it is system driven. It might have to be actually pulling hard copies and looking through, and bedding them but it is a way we can maybe get a count and then we would then have to go and compare, this is the more challenging part, compare individually what their taxes are to what their income is to see what the cap would result in a credit for each one.

Councilmember Yukimura: Okay. At a certain point one's income gets so low that you cannot get...I mean it is hard to pay for the insurance and hard to pay for the upkeep and there is a point where it is hard to be an owner of a house with a very, very low income. I mean I just talked to an elderly person yesterday with an issue like that but I am good with a deferral for two (2) weeks. One, so that we can all just think about it more and also for you to see if you can figure out any way to get some semblance of...

Mr. Hunt: I think the best just for the lack of time and resources I think the best is to make a sampling of those that are in the income exemption program how many percentage wise fall into the lower threshold and then maybe take a couple samples in there saying what the average credits might be and then just apply that globally to get an estimate. I think that is really all that I can do.

Councilmember Yukimura: Okay. Thank you.

Committee Chair Chock: Would you be able to...I mean would it be helpful to look at other municipalities, compare or national averages that we might be able to take a look at? Would that be helpful at all?

Mr. Hunt: Probably not.

Committee Chair Chock: Okay. We have one (1) more question here.

Councilmember Hooser: It might be that we want to make it more generous. I mean there are different moving parts to this but without more information in terms of the basis, the rational, it is really hard to make a good decision and the inclination just to vote and move it on but I think we want to make an informed decisions that is all.

Committee Chair Chock: Further questions for Steve? Okay, thank you, Steve. Appreciate it. I will ask for public testimony at this time. Seeing no one.

There being no one to give testimony, the meeting was called back to order, and proceeded as follows:

(Council Chair Furfaro and Councilmember Bynum were noted excused.)

Committee Chair Chock: I will entertain a motion to defer.

Upon motion duly made by Councilmember Kagawa, seconded by Councilmember Yukimura, and unanimously carried, Bill No. 2557, was deferred.

Bill No. 2558 A BILL FOR AN ORDINANCE AMENDING CHAPTER 5A, KAUAI COUNTY CODE 1987, AS AMENDED, RELATING TO REAL PROPERTY TAXES *(Retroactive Real Property Tax Measures and Extensions)* **(This item was Deferred.)**

Councilmember Hooser moved to approve Bill No. 2558, seconded by Councilmember Yukimura.

Councilmember Hooser moved to amend as circulated Bill No. 2558, as shown in Floor Amendment 1, which is attached hereto and incorporated herein as Attachment 1, seconded by Councilmember Yukimura.

Councilmember Hooser: While this is being circulated the original intent of this measure was to extend the deadline for various exemptions, make them retroactive so if I may, Chair.

Committee Chair Chock: Yes. Please go ahead.

Councilmember Hooser: The original intent was to provide immediate relief in the form of making exemptions retroactive, and extending deadlines, those kinds of things. Given that we just passed the Bill that we passed, this amendment proposes to delete a large section of it and leave in place only one (1) issue and that is the issue of people being placed in the wrong classification. So what this Bill says is that if there is an error that these people can come in as long as, I think by the end of the year and resubmit a new use survey form and then the Director could determine and correct the incorrect classification for 2014 and this waives all penalties and interest for that delinquent payment. There is one (1) example of a person that called me, had a 'ohana unit, they were going to rent it out and checked the box and never rented it out and the deadline passed and so they never rented it out and the property was charged at the higher rate. This would allow them to go reapply and the Tax Director if they determine that it is...they could change that classification. This is co-introduced by Councilmember Bynum and myself.

Committee Chair Chock: Questions Councilmembers? Councilmember Yukimura.

Councilmember Yukimura: I would like to hear from the Administration about how this would be implemented.

Committee Chair Chock: I would too. We will suspend the rules. Mr. Hunt, would you be able to give us your feelings on this.

There being no objections, the rules were suspended.

Mr. Hunt: I am not really sure of the sequencing of events because if you are looking at someone who went from a homestead rate to a residential rate, for instance, and that increase was one thousand dollars (\$1,000), the two hundred fifty dollar (\$250) cap still kicks in. If that person stayed in the homestead class by reapplying but the removal of the cap increased it by five hundred dollars (\$500), the two hundred fifty dollar (\$250) cap still kicks in. So it may be additional work without any consequence in terms of taxes. I am not sure how that would apply. Now I am only speaking to those where they are owner-occupants and was affected by the removal of the cap. There may be other instances where people filed and do not have an exemption, do not work part of the cap and filed incorrectly or got misinformation so there may be some of those out there. But I think primarily the focus has been the removal of the cap and most of the testimony I have heard that may have been misclassified had to do with a combination of removal of the cap and a new rate. I believe the two hundred fifty dollar (\$250) solution mostly ameliorates these issues. I am not sure. So the sequencing...if we were to apply this and it resulted in less than two hundred fifty dollars (\$250) than we would not give the two hundred fifty dollar (\$250) credit because they would not be eligible but then...it might be additional work.

Committee Chair Chock: Councilmember Hooser.

Councilmember Hooser: I just have a suggestion that it is getting late. This particular measure provides a deadline of December 31, 2014. We could defer this for two (2) weeks, have time to think about the impacts further because I agree, with the two hundred fifty dollars (\$250), it might resolve some of these issues. The two hundred fifty dollars (\$250) resolves increases but if this person had been entitled to a decrease...so for an example they are on the homestead rate of three something and it goes to six something that is...they would get the two hundred fifty dollars (\$250)...it would be the max. I would be fine with a deferral on this if we wanted to...it has been a long day and the urgency is not as great as it was before we passed the measure we passed earlier today.

Committee Chair Chock: Any other questions for Mr. Hunt?
Councilmember Yukimura.

Councilmember Yukimura: And this only applies to the year 2014, right?

Mr. Hunt: Correct.

Councilmember Yukimura: So that people theoretically have made the correction for 2015?

Mr. Hunt: Right. If they received an increased bill and a portion of that was due to a classification which they do not feel they should have they have likely been to our office and it is also something as we go forward is something that is appealable during the period so they get, not the taxes but during the assessment period if they did a classification and do not agree with it they can appeal that class. Definitely on a go forward basis we can amend those. This was I believe an attempt to affect properties retroactively in 2014 as a measure of tax relief and I think, again a combination of the Bill that already passed may have done most of the heavy weight lifting on this.

Councilmember Yukimura: Okay.

Committee Chair Chock: Are you done?

Councilmember Yukimura: I am done.

Committee Chair Chock: Okay. Just for the record we also have lost one (1) member. Councilmember Kagawa had to leave. Also an excused absence so he is a voting Committee Member. I am open to the deferral as well but I wanted to keep the dialogue going in terms of questions because I know there are more and if we can vet those now than we can get clearer the next time we get together.
Councilmember Rapozo.

Councilmember Rapozo: Thank you, Mr. Chair. So Steve, right now as it stands if a homeowner realizes that they made a mistake it is tough? I mean they cannot come in and correct it.

Mr. Hunt: If it was a mistake made on the part of Real Property Assessment, in other words they submit a classification that was different from what we sent on their assessment notice, we can correct that. That is a clerical error. If they made a judgment error and checked the wrong box or had a website, did not cancel their Transient Accommodation Tax (TAT) license, something like that, and we found them as a TAT and they were noticed and did not appeal there is no correction. You can correct it going forward but unless they appealed during that December 1st – December 31st window of 2013 for the 2014 year, there is no correction. So we can correct mistakes on our part but we cannot correct judgment errors or mistakes made on the taxpayer part unless they had a valid appeal.

Councilmember Rapozo: But the County can go back and...I just heard the lady come up here earlier and said she just got a letter notifying her that they are going here for last year as well. What is a good time to discuss that? What happens typically?

Mr. Hunt: And I did discuss that a little bit too. In 2013, we were still under the Permanent Home Use (PHU) cap so this is one of those adjustments called the FUPHUT (Future year adjustments to the PHU capped taxes for changes in the Tax Class) changes in tax rates and it goes back to the base year that the cap was established and I believe that the number that Mr. Miles quoted was the market tax differential not necessarily the cap tax so I have been in communication while we were in this meeting with the tax office about that and it is not going to be the amount that was stated. It is not five thousand seven hundred dollars (\$5,700) but there was evidence that the property in use for the prior year and tax & use only came into effect for the last two (2) years so we cannot go back beyond the two (2) years obviously. For normal roll back taxes say you had an omitted property, an omitted building you would be able to go back the current tax year plus two (2) back. So it is a three (3) year total.

Councilmember Rapozo: Right. Okay.

Committee Chair Chock: Go ahead, Councilmember Hooser.

Councilmember Hooser: Just a follow up because I think this is a systemic kind of core kind of issue that it seems like that the tax office can go back but a homeowner cannot go back. If on my federal tax returns I can file an amended return if I find something in my favor but you cannot do that with property taxes. Is that correct?

Mr. Hunt: The issue has to do with the certification of the role. When we send you the certification of the role this is what we are certified to and the only amendments for us are errors that we find on our part which we correct.

Councilmember Hooser: Or like we are talking about tax credits so in theory the taxpayer could amend their property taxes and then the tax office would issue a credit for the following year which would not affect the budgeting process whatsoever in the year that you are in.

Mr. Hunt: I am not familiar with that.

Councilmember Hooser: It seems like...

Mr. Hunt: Because the tax credits are not normal. This is something we passed, at legislation here, it is not a normal process.

Councilmember Hooser: I think the point is that we could design a system to allow taxpayers to amend their returns when valid issues are raised. I think that is something that as we have the discussion going forward because it just seems so one (1) sided. With the use, once you fill out that survey, it is there forever until you come in and jump through a whole pile of hoops to remove it. If I file an exemption I have to re-file it every year. So again it seems like it is not a very customer friendly operation.

Mr. Hunt: The exemption does not get filed every year.

Councilmember Hooser: They told me that my affordable housing exemption I had to come in next year with another lease to do it, right?

Mr. Hunt: It is not a...yes. But it is not an exemption. You do have to file income annually and you do have to file your long-term affordable rentals because they change. You could rent for more. You have to demonstrate that you are still following within the guidelines or on an income that you have not made more than is required so those types are annual filings but your basic Home Use Exemption, your Age Exemption kick in automatically. No annual filings for those.

Councilmember Hooser: Again it just seems like there should be a way for homeowners to amend when new information comes forward just like it is okay for the tax office to go back and charge when new information comes forward. It just seems like it should be equal but on this particular issue I am not saying that I do not think we need it. I am saying it is a long day and we need to think more about it and if possible what I would like to do is amend it as preferred which

cleans it all up and leaves it just to that one (1) section and then we could carry it over to the next Committee meeting if that is okay.

Committee Chair Chock: Understood. Any further questions? If not, thank you, Steve. We will call for any public testimony at this time.

There being no one to give testimony, the meeting was called back to order, and proceeded as follows:

Committee Chair Chock: We have an amendment on the floor. Any further questions? I mean I am sorry, discussion on the amendment? If not.

The motion to amend Bill No. 2558 as shown in Attachment 1 was then put, and carried by a vote of 4:0:1 (*Councilmember Kagawa was excused*) and Bill No. 2558 was amended to Draft 1.

Upon motion duly made by Councilmember Hooser, seconded by Councilmember Yukimura, and carried by a vote of 4:0:1 (*Councilmember Kagawa was excused*), Bill No. 2558, Draft 1, was deferred.

Bill No. 2559 A BILL FOR AN ORDINANCE AMENDING CHAPTER 5A, KAUAI COUNTY CODE 1987, AS AMENDED, RELATING TO REAL PROPERTY TAXES (*Tax On Use*)
(This item was Deferred.)

There being no objections, the rules were suspended to take public testimony.

IAN MILES: My name is Ian Miles. Just in general I though this Bill was excellent for taking care of immediate inequalities. I realize that you are trying to do a comprehensive study, and a long term thing as well so I do not know that it should be...it might be integrated in the long term thing but I would like to see something like this pass in the short term. There again I am not sure because of the rules and my own situation if it really does me that much good. If we are concentrating on the previous Bill that is fine, this Bill to benefit me in particular would have to take care of my situation with the vacation rental I believe. I just wanted to say that as a short term thing we need short term measures to take care of some of the glaring equalities that have developed. I appreciate this. Thank you.

The meeting was called back to order, and proceeded as follows:

Councilmember Hooser moved to approve Bill No. 2559, seconded by Councilmember Yukimura.

Councilmember Hooser moved to amend as circulated Bill No. 2559, as shown in Floor Amendment 1, which is attached hereto and incorporated herein as Attachment 2, seconded by Councilmember Yukimura.

Councilmember Hooser: If I may?

Committee Chair Chock: Sure.

Councilmember Hooser: This is in many ways I believe the most important of the systemic changes that we need to make here today. We passed a very important measure when we started earlier today to provide immediate relief and the fixes, in my opinion, the issue with the use, tax on use. As we know right now if a person has a home and they rent out one (1) bedroom in the home the County of Kaua'i policy is tax that entire property on the highest value which if it was a short term rental it would be vacation rental, if it was commercial, et cetera and as we have heard from many public testimony this is a source of many surprises and large increases and so what this measure does it says...the amendment includes a housekeeping provision also. The core Bill...if I could speak on the Bill, the amendment is housekeeping, but since I am talking I am going to speak on the Bill. This says it is done proportionally and it says that if it has multiple uses it should be classified by each applicable taxed application based on the percentage of square feet of the property dedicated to each use. It says the Director shall prescribe the form of the application so the Director provides the form and may do rules if they are needed to but the owner shall declare by signed affidavit the percentage of the property dedicated to each use. So if it is homeowner John and Mary and they are renting out ten percent (10%) of the property they would declare by affidavit ten percent (10%) vacation rental and the tax office would use that ten percent (10%), charge them the vacation rental rates and charge them the regular homestead rates for the other ninety percent (90%) and it does not require new CPRs it is self depuration and it is designed to minimize the staff impacts. I do not believe that it will have large staff impacts even if it is a CPR within a CPR. If I own a CPR and have two (2) uses I just declare those uses. I think you folk saw the survey form that was passed out. Homeowners have to select what their use is. They could just put another column selecting the percentage of the property and that is what the tax is based on. There is a lot of talk about equity and fairness here today and I think this is ultimately the way to achieve equity and fairness with this use. I have talked to many farmers who had multiple acres and they have a small fruit stand on the business, on the property and they get charged commercial rate for the entire place and this would resolve those issues. I understand there is a competing measure that was introduced, I think today. I should not say competing but it intends to charge a blended rate instead of separating it out and I am also understand that the Finance Director believes this will be labor intensive and have to hire a bunch of people. I believe it does not have to be that way and would encourage us to pass it and move it out.

Committee Chair Chock: Question on the amendment? No? I would like to suspend the rules and ask our Director of Finance to come up. If you could please shed some light on again fiscal implications and also the cost of...or what the impact is on personnel.

There being no objections, the rules were suspended.

Mr. Hunt: Thank you. I guess one (1) advantage of a Finance Director who has actually worked about ten (10) years in the Real Property office is I know the system well and this although it seems simplistic is very challenging to implement. The property record cards collect the data that we use for doing the assessments. There is a use and a value classification field to get input with one (1) number. You cannot have two (2) sets of numbers in there. You cannot do perorations within the actual card. So this would have to be from an implementation standpoint each split use property would have to have a master property record card and then each of the uses, whether it is one (1), two (2), or three (3) types of uses would have to have CPR units created from that, whether they are a real CPR or not you would have to create CPR cards to send out an assessment which we could call it a tie back so you can set the value on the master so we are still using the same single value for the entire property but how you prorate that in terms of adding a value class for each of those different uses and the percentage of use would have to be done separately. They could not be on one (1) card, on a sole card. They would have to have a separate one (1) for each class. That would be labor intensive because every property that gets touched is now maintaining the condo master and then each of the separate units that come off of the condo master for each of those uses. Compliance would also be on each of the uses. Another would be an affidavit of field checks made, show different uses over periods of time and I guess the other would be the proration of other improvements to the property. If you have a garage, a swimming pool, it is not just the square footage of the living area but if you establish the use would it be if you have ten percent (10%) of the property do you pick-up ten percent (10%) of the garage, ten percent (10%) of the pool, ten percent (10%) of the sheds, ten percent (10%) of the other improvements to the property? Would they have individual land components described to each of them? Often value although percentage is an easily accountable, the proration of value may not be. You may have ten percent (10%) vacation rental use which may contribute thirty percent (30%) of the value to the property so then we run into the issues of appeals. Someone who wants to appeal each of those potential uses is it really appealing a portion of their property based on the use we ascribe to that portion. So I know it sounds simple on paper but the actual implementation of this would be very challenging.

Committee Chair Chock: Can you be more specific? Man hours?

Mr. Hunt: I believe from an intake standpoint you are going to have people that will collect the affidavits, set-up files to say okay these are

the ones that need to be touched. You would then have to have an appraiser assigned to doing the creation of the new CPRs and again there is the issue of one that is on a CPR. If you have an existing CPR you cannot CPR a CPR so we would have to potentially software changes from our vendor to allow another series of numbers beyond our initial four-digit HPR number at the end to say okay, this is Type A or Type B or whatever the use is going to be. So we are messing potentially with the tax map key system which again also drives Building Division, Planning, everyone is attached to those tax keys so we are going to have a specialized set of for taxation purpose only parcel identification. So you would have someone that would be sort of just on the intake collecting, identifying, processing, getting the package together, sending it to the appraiser. The appraiser would then go do the leg work of creating this. It is not an auto populate. You create the CPR and you have to put in each of the information and the tieback to pull the percentage from each of those new cards and then you would have to have field inspections and regular compliance to see are they continuing to maintain on the same level. Was it one (1) bedroom and now it is two (2)? We are going to have to change the area, contact the owner, get new affidavits so it could be a process for compliance so that is where I see this proration potentially going. While I agree it is fair and very equitable in terms of getting the right use and the right taxes associated with I think the implementation cost could be very high.

Committee Chair Chock: Question, Councilmember Hooser.

Councilmember Hooser: So we will trade off fairness and equity for implementation?

Mr. Hunt: Well and that is the other issue too I guess. I really cannot see this implemented for the 2015 year even if it passed out of here.

Councilmember Hooser: You make a very good case and the inclination is just throw up my hands and say we cannot do it, we cannot do it but I think the system we have now provides a huge disincentive for people to maximize their income potential from their house. Many people are hurting. They need to supplement their income and they just want to rent out a room and now they are going to have their entire tax and their entire properties is going to go up and then it is a problem. The farmers I talked to, the same thing. They want to put a little farm thing out there. They are only going to get one thousand dollars (\$1,000) from the other income and their taxes are going to...you know it is just a disincentive and it is not fair.

Mr. Hunt: Yes and I understand that too because if you are looking at square footage even if you had a two hundred square foot (200 ft²) fruit stand and then you compare it to a twelve hundred square foot (1,200 ft²) residence but then the property has to be one hundred (100) acres you are still taking a big portion of that fruit stand that is commercial use and saying it may sit

on a very small pad but because of its percentage relative to the total property it is going to pick up a lot more commercial area so even that is going to be some issues in terms of how you implement.

Councilmember Hooser: If you could boil down the inconvenience and the hassle and to dollars and cents and time. You mentioned that it is going to take a lot of work to do this and you mentioned that you could not do it right away so what is that? If you could be a little more concrete?

Mr. Hunt: Again, best practice guesstimates, I would say we are probably looking at...and deadlines for applications, creating the forms, I would probably looking at somewhere in the three (3) month kind of period to sort of get through just the intake and the process set-up. And then you are probably looking at another, assuming we had the staff added to do it and trained to do it, probably another two to three (2 – 3) months maybe. So maybe six (6) months with three (3) staff added. I think one (1) could be temporary to kind of get through the hump but on an ongoing basis, I mean once we kind of get all of the...you know there is going to be a big rush for all of the mixed use properties but once you kind of got them in then it kind of goes into more of the compliance and annual maintenance of that so I think two (2), I think you are looking at a sort of Compliance Officer and an Appraiser on a full term basis and probably more of a clerk type position for intake for the first six (6) months maybe.

Councilmember Hooser: Okay. So...go ahead.

Committee Chair Chock: Just a follow-up and then I will give the floor to Councilmember Yukimura but it sounds like for me it seems like it is an idea I could support because it does look towards becoming more equitable but there is a lot more work and investigation that needs to occur so I am thinking about interim steps. Smaller steps again that we might be able to look into developing a system that would work over time and if there is some direction that you might be able to afford us, timeline, whatever as we move forward I think that is something that I could support.

Mr. Hunt: And I think because we are moving to a web-based Information Access System (IAS) world system there may be more capabilities that we can explore in terms of...I know it is a more robust, enhanced...maybe some of those percentage things are available in the new version. I have not been involved in that yet but with the current system we have I can only see it being done through the CPR route which is very cumbersome.

Committee Chair Chock: Councilmember Yukimura.

Councilmember Yukimura: How many parcels are we talking about presently?

Mr. Hunt: Of those with home exemptions there are one thousand seven hundred eighty-eight (1,788) that we know off that have mixed use where they have a home exemption and another use but there are other properties that do not have exemptions that have mixed uses as well. The only way we are able to currently divide that is when we have defined uses and defined zonings on a property. So if it is not a single zone property like agriculture or residential and you have an area that say two (2) acres are commercial and one (1) acre is residential we can actually create land lines for that property because there are separate land areas and then we can describe uses to those and put buildings on those and they would get separate assessments for each of those portions of the property on one (1) card but only when we have that separation of zoning in use.

Councilmember Yukimura: So there is a Bill that was introduced today that offers an administratively simpler way to do things.

Mr. Hunt: I would call it a less accurate but it does provide relief, it does lower the overall rate, just proportionally some will benefit a lot more than others and *vice versa*.

Councilmember Yukimura: Well we just did that today too. What is the alternative if you could explain it?

Mr. Hunt: The alternative Bill which we had the first reading today...

Councilmember Rapozo: Mr. Chair, I think I have a point of order really quick only because it is 7:10 p.m., that item is not on the agenda. I am not voting for this today, it sounds like it is going to be deferred. Unless we are going to take a break because, again, 6:30 p.m. is their break time. We are kind of stretching it, Mr. Chair. I suggest we defer this and wrap this up or give the staff dinner because I can hear their stomachs grumbling from all the way over here and again I appreciate Steve but...

Committee Chair Chock: It has been a marathon today so I appreciate the comment and interjection so if we can...Councilmember Hooser move us towards that.

Councilmember Hooser: So if we can do the housekeeping amendment that just adds in language from legislation that we have already passed, correct? Yes, so it is minor housekeeping and then we can defer this to the next Committee meeting.

Committee Chair Chock: So just for the record does anyone want to testify on this item?

There being no one to give testimony, the meeting was called back to order, and proceeded as follows:

Councilmember Hooser: So the amendment is on the floor.

The motion to amend Bill No. 2559 as shown in Attachment 2 was then put, and carried by a vote of 4:0:1 (*Councilmember Kagawa was excused*) and Bill No. 2558 was amended to Draft 1.

Upon motion duly made by Councilmember Hooser, seconded by Councilmember Yukimura, and carried by a vote of 4:0:1 (*Councilmember Kagawa was excused*), Bill No. 2558, Draft 1, was deferred.

The Committee proceeded on its agenda items, as shown in the following Committee Reports which are incorporated herein by reference:

CR-FED 2014-33: on Bill No. 2552 A BILL FOR AN ORDINANCE AMENDING ORDINANCE NO. B-2014-781, AS AMENDED, RELATING TO THE OPERATING BUDGET OF THE COUNTY OF KAUAI, STATE OF HAWAII, FOR THE FISCAL YEAR JULY 1, 2014 THROUGH JUNE 30, 2015 BY REVISING THE AMOUNTS ESTIMATED IN THE CRIMINAL ASSETS FORFEITURE FUND (*Kauai Police Department, Exercise Equipment – \$70,000*)
(Approved as Amended.)

CR-FED 2014-34: on Bill No. 2555 A BILL FOR AN ORDINANCE AMENDING ORDINANCE NO. B-2014-781, AS AMENDED, RELATING TO THE OPERATING BUDGET OF THE COUNTY OF KAUAI, STATE OF HAWAII, FOR THE FISCAL YEAR JULY 1, 2014 THROUGH JUNE 30, 2015, BY REVISING THE AMOUNTS ESTIMATED IN THE GENERAL FUND (*Real Property Tax Relief Funding – \$750,000*) **(Referred.)**

Councilmember Yukimura moved to adjourn the Finance & Economic Development (Tourism / Visitor Industry / Small Business Development / Sports & Recreational Development / Other Economic Development Areas) Committee Meeting, seconded by Councilmember Hooser, and carried by a vote of 4:0:1 (*Councilmember Kagawa was excused*).

There being no further business, the meeting was adjourned at 7:12 p.m.

Respectfully submitted,



Lori L. Marugame
Council Services Assistant I

APPROVED at the Committee Meeting held on November 12, 2014:



MASON K. CHOCK, SR.
CHAIR, FED COMMITTEE

(October 1, 2014)

FLOOR AMENDMENT

Bill No. 2558, Relating to Real Property Tax (*Retroactive Real Property Tax Measures and Extensions*)

Introduced by: GARY L. HOOSER

1. Amend SECTION 1, "Findings and Purpose" to read as follows:

"SECTION 1. Findings and Purpose. The Council finds that approximately six thousand eight hundred twenty-five (6,825) or fifty percent (50%) of homeowners experienced an increase in their 2014 real property tax bill, some of which were substantially larger than the prior year. Factors for the unintended impact to property owners' real property tax bills include amendments to Chapter 5A, Kaua'i County Code 1987, as amended, relating to Real Property taxes; such as the repeal of the Permanent Home Use Tax Limit, the increase in real property tax rates for Fiscal Year 2014-2015; and the increase in property assessed values.

The purpose of this bill is as follows:

- [• Provides for any claim for an exemption, Long Term Affordable Rental, or Home Preservation Tax Limit applied for in the 2015 tax year to be retroactively applied to a claimant's Real Property Tax bill for the 2014 tax year.]
- Provides for an owner to submit a new "Use Survey Form" to the Department of Finance, Real Property Assessment Division by December 31, 2014 for the 2014 tax year and to receive a tax credit in tax year 2015 as determined by the Director of Finance for property that was designated an incorrect tax classification in tax year 2014.
- Waives all penalties and interest for delinquent payment due to incorrect tax classification."

2. Amend SECTION 2, by amending Section 5A-6.4(a) to read as follows:

"Sec. 5A-6.4 Real Property Tax Rate Classifications.

(a) For purposes of tax rates, real property shall be classified into one (1) of the following general classes according to the property's actual use unless otherwise provided in this Chapter:

- (1) Residential.
- (2) Vacation rental.
- (3) Commercial.
- (4) Industrial.
- (5) Agricultural.
- (6) Conservation.
- (7) Hotel and resort.

(8) Homestead.

(9) Residential Investor

Vacant property shall be classified as zoned until actual use is established[, except for vacant property previously classified as apartment shall be classified as hotel and resort until actual use is established]. If a property has multiple actual uses, it shall be classified as the use with the highest tax rate. For the tax year 2014, any owner shall be allowed to submit a new "Use Survey Form" to the Department of Finance, Real Property Tax Assessment Division by December 31, 2014. Should the Director determine that a property was designated an incorrect tax rate classification for tax year 2014, a tax credit of the difference shall be applied to the owner's 2015 tax year bill and all penalties and interest for delinquent payment shall be waived."

3. Delete SECTION 3 AND SECTION 4 and renumber appropriately.

(Material to be deleted is bracketed. New material is underscored.)

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(October 1, 2014)

FLOOR AMENDMENT

Bill No. 2559, Relating to Real Property Taxes (*Tax on Use*)

Introduced by: GARY L. HOOSER

Amend Bill No. 2559, SECTION 2, by amending Section 5A-6.4, subsection (a), to read as follows:

“Sec. 5A-6.4 Real Property Tax Rate Classifications.

(a) For purposes of tax rates, real property shall be classified into one (1) of the following general classes according to the property’s actual use unless otherwise provided in this Chapter:

- (1) Residential.
- (2) Vacation rental.
- (3) Commercial.
- (4) Industrial.
- (5) Agricultural.
- (6) Conservation.
- (7) Hotel and resort.
- (8) Homestead.
- (9) Residential Investor

Vacant property shall be classified as zoned until actual use is established[, except for vacant property previously classified as apartment shall be classified as hotel and resort until actual use is established. If a property has multiple actual uses, it shall be classified as the use with the highest tax rate]. If a property has multiple actual uses, it shall be classified by each applicable tax classification based on the percentage of square footage of the property dedicated to each use. The Director shall prescribe the form of the application and may establish administrative rules relating to this section. As part of the application, the owner shall declare by signed affidavit the percentage of the property dedicated to each use.”

(Material to be deleted is bracketed. New material is underscored.)

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